

Excerpts from Recent Letters and Reports about the FASB and the Project on Business Combinations

Elimination of the Pooling Method

Analysts/Consumers/Investors

“We are writing you not only to express our views, but also to speak on behalf of thousands of investment professionals, current and potential investors, creditors, and other users of financial statements.

. . . .

The FAPC is unequivocal in its support of the FASB’s proposal that there be only one method of accounting for business combinations in the United States. We also agree that the purchase method is the one that reflects properly the economics of all business combinations, and that pooling-of-interests should be eliminated.

. . . .

The pooling method fails to revalue the assets and liabilities of the acquired enterprise at fair value and the excess, commonly called ‘goodwill,’ is not recorded. Hence, pooling does not faithfully represent the values of the assets and liabilities exchanged, nor does it reveal the actual premium paid by the acquirer in the transaction. Users of financial statements are thus impeded in their attempts to understand the underlying economics of the business combination.”

*Gabrielle U. Napolitano, CFA, Chair, Financial
Accounting Policy Committee, Georgene B. Palacky, CPA,
Associate, Advocacy, Association for Investment
Management and Research, 2/23/00*

“Moody’s supports the objectives of accounting standards setters to improve the harmonization of accounting standards globally, and welcomes the FASB’s proposal to eliminate the pooling of interests method. We believe that a single method can improve analytic efficiency, especially in cases where a single transaction or essentially identical transactions would produce dramatically different accounting results, and thus enhance the ability of cross border capital market participants to compare, easily and accurately, alternative investments.”

*Michael R. Foley, Managing Director, Corporate Finance,
Moody's Investors Service, 3/6/00*

"Taking an overall view of the document, I think the Board should be applauded for taking on such a project. There are few areas in the current accounting literature that need reform more than business combination accounting

. . . .

I believe that the financial reporting that results from a pooling transaction is flawed and provides irrelevant information to users. When one company acquires another, the amount of resources used by the acquirer is relevant information for the acquirer's shareholders. That relevant information is provided by the purchase method; it would reflect the fair value of the business combination on the acquirer's balance sheet. Treating an acquisition as a pooling would show the acquiree's basis in the assets transferred, which says nothing about the way the acquirer used its shareholder resources.

If generally accepted accounting principles legitimately allowed buying companies to record the seller's cost in the inventory, equipment or land that they acquire, no serious user of financial statements would have respect for the results. Yet pooling legitimizes such an accounting treatment, on a grand scale, when *all* of the assets of a firm have been acquired. It's an inconsistency in GAAP that should be remedied by this proposed Statement."

*Jack T. Ciesielski, CPA, CFA, President, R.G. Associates,
Inc., Investment Research/Investment Management,
11/29/99*

"The Council of Institutional Investors, an association of more than 100 public, corporate and union pension funds with more than \$1 trillion in investments, supports the Financial Accounting Standards Board's proposal to eliminate the pooling-of-interests method of accounting for business combinations.

. . . .

While neither accounting method is perfect, the purchase method offers a number of benefits for investors. First, it reflects fair market values involved in a deal; pooling only considers book values. Second, it improves comparability of deals in the U.S. and abroad, where purchase accounting is the predominant standard. Finally, it eliminates the use of pooling as a defense against other combination proposals."

*Sarah A.B. Teslik, Executive Director
Council of Institutional Investors, 2/28/00*

“Over the last decade, a tidal wave of merger activity has swept through nearly every corner of the American economy. According to the Federal Trade Commission, the number of federal pre-merger filings has nearly tripled since the beginning of the decade, from 1,529 in 1991 to an estimated 4,500 last year. The market value of those mergers has risen even more dramatically, from \$600 billion in the previous peak year of 1989 to more than \$2 trillion in 1998. And several factors, not least passage this year of the financial modernization legislation, lead us to conclude that this activity is unlikely to abate any time soon. Ensuring that investors get complete and accurate information about the effects of mergers is, thus, a timely and important issue for the Financial Accounting Standards Board to tackle.

. . . .

Some, particularly in the high tech and financial services industries, have argued that mergers and acquisitions will grind to a halt if the proposal to eliminate use of the pooling method of accounting is adopted. Leaving aside the accuracy of that argument – which is certainly subject to debate – it is worth examining its underlying assumptions. In essence, this argument presupposes that many of the mergers being conducted or considered today would not go forward if investors had access to the more complete, accurate information provided under the purchase method of accounting. But surely, mergers that cannot withstand careful investor scrutiny should not be promoted, and certainly not at the cost of distorting the information provided to investors.

CFA believes the proposal to require the use of the purchase method of accounting for all business combinations would improve the ability of investors to make sound investment decisions and, by extension, would contribute to the efficient functioning of the capital markets. For these reasons, CFA urges the proposal’s approval.”

*Barbara Roper, Director of Investor Protection, Consumer
Federation of America, 11/30/99*

“I write in support of FASB’s proposal to eliminate the pooling-of-interests method of accounting for business combinations.

. . . .

Pooling permits companies to disregard the substantial value of goodwill, eliminating charges that impose a crucial discipline. It encourages short-term maneuvering that can distort the real consequences of a deal and make mergers seem deceptively attractive. In this era of over-managed earnings, we must be deeply cautious about manipulation of accounting practices. The result is paper profits, not real profits, quick gains, not real growth.”

Nell Minow, Editor, The Corporate Library, 2/29/00

“The prohibition of the pooling method is consistent with our position that share-for-share transactions should be accounted for as purchases. We believe that it is important to have the fair value of the exchanged shares recognized in the financial statements of the combined enterprise. The purchase method is much more revealing about the (1) economic nature of the transaction that has taken place, (2) the transaction values involved, and (3) the transaction’s effect on the continued operations and financial position of the combined entity. Moreover, the purchase method will provide financial statement users with essential information that will better enable them to:

- (1) assess the economic benefits and risks of M&A transactions; and
- (2) forecast the amount, uncertainty, and timing of the combined enterprise’s future cash flows and reported earnings with greater accuracy.”

*Gabrielle U. Napolitano, CFA, Chair, Financial
Accounting Policy Committee, Ashwinpaul C. Sondhi,
Subcommittee Chair – Business Combinations, Georgene
B. Palacky, CPA, Associate, Advocacy, Association for
Investment Management and Research, 12/7/99*

Companies

“We agree with the Board’s decision to eliminate the pooling-of-interests method to account for business combinations and require that the purchase method be used for all business combinations. It is difficult for financial statement users to compare companies when each has used different methods of accounting for what is essentially and economically the same transaction. We agree with the advantages of one method of accounting for business combinations listed in paragraph 114 of the ED. Additionally, one of the primary features of pooling-of-interests accounting is the exchange of stock whose value is ignored when accounting for the transaction. We do not believe that the value exchanged should dictate the method of accounting that is used for a business combination.”

*B. K. Rawot, Vice President and Controller, Eaton
Corporation, 12/7/99*

“We cannot disagree with the Board’s decision to allow only the purchase method of business combinations because although we believe a pooling-of-interests is possible, we believe poolings of equals are rare and unnecessarily restrict certain corporate transactions.”

*Leonard V. Assante, Controller, American Electric Power,
12/17/99*

“IBM agrees with the FASB that all business combinations are acquisitions and, thus, we support the FASB’s proposal to eliminate the pooling-of-interests method of accounting for a business combination. We believe that financial statement users are ill-served by

the existence of two methods to account for the same economic transaction. We agree with the FASB that using the purchase method to account for all business combinations will increase the comparability of financial statements and will reflect the true economics of the transaction, that is, an arm's length investment that should be accounted for at the fair value of the assets and liabilities that are acquired."

*Joseph J. Martin, Office of the Assistant Controller,
Corporate Headquarters, IBM Corporation, 12/7/99*

"We agree with the Board's decision that the pooling-of-interests method should not be used to account for any business combination."

*Peter R. Bible, Chief Accounting Officer, General Motors,
12/14/99*

"We agree with the elimination of the Pooling of Interests method of accounting for a business combination and fully support the directive to use only the purchase method of accounting for all business combinations"

*R. R. Gallagher, Corporate Controller, Caterpillar, Inc.,
12/1/99*

". . . IMC agrees with the Financial Accounting Standards Board (Board) that all business combinations are acquisitions, and therefore, are accounted for by using the purchase accounting method. As a result the pooling-of-interests method should be eliminated from use."

*Anne M. Scavone, Vice President and Controller, IMC
Global Inc., 12/7/99*

"We agree with the Board's conclusion that all business combinations should be accounted for by the purchase method. . . . In particular, we agree with the Board's assessment that shareholders of the target enterprise typically enjoy an increase in the value of their exchanged shares following a pooling that the other shareholders do not. Further, we believe that control over the assets has changed (even though it is accomplished through a sharing arrangement) and, therefore, the purchase method is the appropriate basis of accounting under the circumstances."

*William H. Hernandez, Senior Vice President, Finance,
PPG Industries, Inc., 12/7/99*

"We support the concept of getting rid of pooling accounting. We have dealt with business combinations for over 20 years, with hundreds if not thousands of deals. Without exception there is always a buyer and always a seller. There may be 'mergers of equals,' but we have never seen one in our professional practice."

*Alfred M. King, Chairman of the Board, Valuation
Research Corporation, 9/30/99*

Financial Institutions/Regulators

“FIAC is a group of 15 financial professionals working in executive level positions in the thrift and banking industries and is sponsored by the Financial Managers Society. FIAC’s primary responsibility is to evaluate those accounting and regulatory matters that affect financial institutions.

... FIAC members concur with the decision to eliminate pooling of interests as a method of accounting for business combinations. We believe it is clearly desirable to have only one method to account for the same type of transaction and that the purchase method provides investors and analysts with more useful information.”

*Reme Nichols Tucei, EVP, Controller, California Federal
Bank, Chairman, Financial Institutions Accounting
Committee, Financial Managers Society, 12/6/99*

“Overall, we support issuance of the proposed Statement. We agree with the Board’s conclusion that all business combinations are acquisitions. We also agree that using a single method – the ‘purchase’ method – to account for all business combinations is preferable to various alternatives.”

*Timothy J. Stier, Chief Accountant, Office of Thrift
Supervision, Department of the Treasury, 12/6/99*

“The Department agrees with treating all business combinations as acquisitions, thereby eliminating the need for the pooling-of-interests method. The complexities of meeting the pooling criteria justify the FASB’s decision to eliminate a separate accounting method for rare true ‘mergers of equals.’ The Department cautions against providing any exception to the purchase method. Any exception that permits a poolings approach will be seized upon and result in numerous attempts to meet the exception. This would effectively eviscerate this proposal.”

*John McEnerney, New York State Banking Department,
12/17/99*

Accountants

“One of the objectives that the Council of the American Institute of CPAs established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms’ interests in professional issues, primarily through the Technical Issues Committee (“TIC”). This communication is in accordance with that objective.

....

TIC members agree with the Board's conclusion that all business combinations are acquisitions and that the pooling-of-interests method should be eliminated. This view is based on the same reasons set forth in paragraphs 143 to 153 of the exposure draft."

*Candance Wright, Chair, PCPS Technical Issues
Committee, American Institute of CPAs, 12/14/99*

"We support the FASB's decision to require the purchase method of accounting for all business combinations. The current criteria that determine whether the pooling or purchase method should be applied to a particular combination are arbitrary and can be manipulated to give the desired result. However, the differences in the resulting accounting can be significant."

*Grant Thornton LLP, The US Member Firm of Grant
Thornton International, 12/8/99*

"I favor eliminating pooling. In my view, basic accounting theory says that the cost of any asset, as measured by the consideration given, be it cash, common stock, other securities, or other assets, should be recorded and charged against future operations over the period benefited. Failure to require that allows the acquirer to spend assets without accounting for them. In my view, it has led to many acquisitions that are unsound or where an excessive price in stock was paid. It may be argued that the acquirer's stock is selling for more than it is worth and the acquirer should not be penalized by having to charge the excess against its earnings over time. Yet the stock could have probably been sold for cash for the same amount. Who would say that the company should not have to account for the excess cash received over fair value on a stock sale?"

Stanley F. Dole, Certified Public Accountant, 12/4/99

"We believe that, in general, business combinations are purchases of one company by another. We believe that exceptions could occur in rare cases, but can't provide examples; therefore, we can't prescribe any accounting other than purchase accounting."

*David M. Rosas, Chairman, Accounting and Auditing
Committee, Maryland Association of Certified Public
Accountants, Inc., 11/11/99*

"The threshold issue of the Exposure Draft is whether all business for combinations should be accounted for as purchases or whether some form of pooling of interests accounting should be retained. We agree with the Board that pooling should be prohibited. Pooling of interests accounting does not fairly or accurately represent the underlying economics of business combination transactions seen today where acquisition premiums are usually exchanged in what is effectively a purchase and sale. A theoretical exception might be possible for so-called 'merger of equals' but history would suggest that there is no such transaction (eventually the acquiring company becomes evident). To

achieve a pooling, companies often shun certain practices that would benefit shareholders (such as share buy-backs or sales of non-strategic assets). Thus eliminating that method of accounting removes that as a decision variable. It has often been said that a company should be indifferent to the method of accounting for business combination; rather the emphasis should be on cash flows, net present value, and other financial metrics. The Exposure Draft will encourage that emphasis.”

*Henry Rinder, CPA, Chairperson, Auditing and Accounting
Standards Committee, New Jersey Society of Certified
Public Accountants, 11/30/99*

Academics

“The Financial Accounting Standards Board has decided to put an end to the Pooling-of-Interests accounting method . . . , whereby a rather expensive common-stock-financed deal may be dressed up like a great bargain because instead of recording on the financial statements the market value of the stock (and God knows, we have had by now years of quite lofty stock prices), the purchaser opted to copy over the obsolete figures appearing on the books of the acquired company.

The FASB decision to require recording all acquisitions at actual cost—the so-called Purchase accounting method—no matter how they were financed (by cash, stock, a combination thereof, etc.) will enhance the transparency of major business transactions entered into by public companies in the U.S. and usher in greater uniformity and consistency in their financial reporting.”

*Itzhak Sharav,
Graduate School of Business,
Columbia University*

“Some make the various but overstated claim that the elimination of pooling will negatively affect the economy and result in loss of jobs and needed advances in technology and medicine. These claims ignore the fundamental economics driving business combination, and the current practice of permitting different accounting treatments for similar combinations leads to information that is not as transparent and useful to investors as it could be.

The academic literature provides little support for the use of pooling as an economically superior alternative. Indeed, the literature suggests that firms pay an average premium of sixty million dollars to structure a transaction as a pooling in order to obtain that method’s ability to manage earnings. Davis (1996) concludes that acquisitions accounted for with the purchase method are associated with higher stock returns than are mergers accounted for with the pooling method. This suggests that pooling masks the economics of transactions, encouraging managers to pursue low-quality mergers/acquisitions. Loughren and Vijh (1997) examines post-combination benefits to target firm shareholders who received shares of an acquirer’s stock (a condition for pooling) and

finds that any premium received dissipates over the subsequent five-year period.”
(footnotes omitted)

*Joseph H. Godwin, Ph.D., CPA, Chair, Department of
Accounting and Taxation, Grand Valley State University,
1998-99 Academic Fellow, and 14 other former Academic
Fellows in the Office of the Chief Accountant of the
Securities and Exchange Commission, 10/15/99*

“As one of the original dissenters to APB 16 I am enthusiastically in agreement with the conclusions in Issue 3 [to eliminate the pooling method]. The dissent of Messers Horngren, Seidman and myself to that Opinion, spells out in some detail our reasons for requiring the purchase method for all business combinations. I would not change a word of it.”

*Sidney Davidson, Distinguished Service Professor Emeritus
of Accounting, Graduate School of Business, The
University of Chicago, 9/24/99*

“Undoubtedly the longest running con game in U.S. financial reporting is the pooling-of-interests method of accounting for business combinations. As accountants know, this procedure carefully adds irrelevant historical-cost book values in the acquired company’s accounts to equally irrelevant historical-cost book values in the acquiring company’s accounts. As noted in the FASB’s June 1997 report on combinations, most of the rest of the world actually or virtually bans this deceptive practice.”

*J. Edward Ketz, Associate Professor of Accounting, The
Pennsylvania State University, Department of Accounting,
The Mary Jean and Frank P. Smeal College of Business
Administration, 3/2/00*

“To begin with, I wholeheartedly concur with the FASB’s conclusions that all business combinations should be accounted for as a purchase. I agree with the FASB’s conclusions that pooling is contrary to the accounting model that assets and liabilities are initially recorded at fair value. Furthermore, the financial community values these transactions as well. Any announcement in the financial press about a pending merger or acquisition is accompanied by the phrase, ‘in a deal valued at \$xx.’ To me, the obvious question is, if the financial community is already valuing these transactions, why don’t the financial statements?

I know that the FASB will or has received statements from some of its constituents that without pooling accounting sound acquisitions simply can’t be done. I am not swayed by these claims. These types of claims have been made in the past and history has shown that it is not the accounting that makes or breaks the deal. If the deal makes sense economically, it can get done. Conversely, however, if the deal does not make economic sense, then purchase accounting will make that readily apparent. As similar analogy is the FASB’s deliberations leading to the issuance of SFAS No. 106, *Employers’*

Accounting for Postretirement Benefits Other Than Pensions. At the time FASB was deliberating this issue, there were claims about this standard leading to the end of these benefits. I think it is generally accepted that companies have curtailed these benefits since the issuance of the document. However, I think that a cogent argument can be made that it was not the accounting that caused these reductions of benefits. Rather, it was the fact that companies had to measure and report their liabilities that caused them to examine the economic consequences of the benefits which had been promised.

To me, it seems highly likely that the same phenomenon will occur with a purchase-only model. Companies will have to more closely examine the purchase price decisions and ‘sharpen their pencils’ to make sure that the deal makes economic sense since the consequences would be more transparently reported in the financial statements.”

*Paul Munter, PhD, CPA, Department of Accounting,
University of Miami, 12/7/99*

“We agree with the Board’s conclusion that the pooling-of-interest method should be eliminated and all business combinations should be accounted for using the purchase method. Using two different methods for what is essentially the same transaction can be confusing to many investors. The pooling-of-interest method ignores the values exchanged in a business combination. This makes it difficult for investors to tell what price was paid for the business. It would be better to have one standard so that it is easier for investors to understand the transaction and have the ability to compare companies.

*Allen W. McConnell, Professor of Accounting, University
of Northern Colorado, and the Advanced Accounting Class,
12/6/99*

“Pooling Method is Per se Misleading.

Exposure Draft No. 201-A would properly eliminate the pooling method of accounting for business combinations. Arm’s length bargaining between unrelated parties as to what fraction each shall hold of the combined business provides reliable accounting data as to fair market value. Fair market value of assets generates reliable accounting data whenever unrelated parties combined their interests.”

*Calvin H. Johnson, Andrews & Kurth Centennial
Professor of Law, The University of Texas School of Law,
11/23/99*

Analyst/Consultant Reports

“Will M&A activity come to a screeching halt? Could accounting kill the New Economy?

Fortunately, the answer across the board is an emphatic ‘no.’ The fear that purchase accounting, by lowering reported earnings, will destroy shareholder value is a myth. In

fact, the opposite is true. Efforts to qualify for such treatment actually destroy value. FASB's proposal to eliminate pooling accounting is a blessing in disguise. Why? Because the transition to purchase accounting will require corporations to adopt more robust deal evaluation processes and enhance their shareholder communications. To meet these challenges, CEO's must take action to mobilize resources to meet these challenges and ensure continued value creation through strategically rational, synergistic activity."

Rob McNish, Neil Harper & Zane Williams, McKinsey & Company, 4/00

"Some investors are concerned that the FASB's preliminary decisions to eliminate pooling of interests . . . could adversely affect future M&A activity.

Our detailed survey of investment research analysts suggests that these potential accounting changes will not have a material adverse effect on future business consolidation.

. . . .

Trends in global M&A activity continue to be robust. The fundamental factors driving worldwide consolidation are intact, and we do not foresee a notable slowdown in business combinations as a consequence of possible accounting changes."

Gabrielle Napolitano, CFA, and Abby Joseph Cohen, CFA, Goldman Sachs, 5/28/99

"We conclude that changes in accounting for acquisitions should not be a concern for acquirers; an elimination of pooling should have no lasting impact on firms' strategic decisions or on M&A activity."

Eric Lindenberg, and Michael P. Ross, Financial Strategy Group, SalomonSmithBarney, 6/4/99

"In our opinion, . . . the economics of a 'purchase' and 'pooling' are the same. We, therefore, don't think elimination of pooling-of-interests accounting will halt consolidation. Indeed, ultimately, required usage of purchase accounting could generate more transactions given greater comparability from an international accounting standpoint and fewer earnings reporting/share buyback constraint issues."

Sandra J. Flannigan, CFA, First Vice President, Global Securities Research & Economics Group, Global Fundamental Equity Research Department, Merrill Lynch & Co., 3/5/99

Independent Private Sector Accounting Standard Setting

“At the present time, a few constituents are, unfortunately, encouraging Members of Congress to intervene in the independent private-sector standard-setting process. While full public debate of the technical merits of a proposed standard is encouraged and appropriate, we do not believe that the standard-setting process should be subject to governmental intervention when, in the judgment of the Trustees of the FAF, appropriate and extensive due process procedures have been, and continue to be, followed by the FASB. Explicit or implicit threats of increased legislative activity create a real risk to the continued viability of private-sector standard setting.

As Trustees of the FAF, we strongly support private-sector standard setting, including the existing structure and processes of the FASB”

Trustees of the Financial Accounting Foundation, 5/1/00

“I believe the single most important aspect of the FASB process is its independence, free from the pressure of special interests and government intervention. The U.S. accounting and reporting standards are arguably the best in the world and have contributed significantly to investor confidence and flourishing U.S. capital markets.”

*Robert C. Butler, Chairman, Financial Accounting
Standards Advisory Council, 4/25/00*

“Political intervention by the Congress of the United States is likely to impede the FASB’s ability to promulgate and issue standards for financial reporting that serve the capital markets of the United States. Accounting standards must faithfully represent the economic substance of business transactions and provide information in a neutral manner to all financial market participants. In the specific case of business combinations, the financial markets require an accounting standard that reports the value of those transactions regardless of the ‘currency’ used to effect a combination. Such a standard would provide transparency, and in turn, enhance the ability of financial market participants to assess properly the economic position and future viability of the combined enterprises these transactions produce.

. . . .

We continue to believe strongly that political intervention should be kept to a minimum with regard to setting accounting standards. Accounting standards should not be promulgated to serve the special interests of select groups of constituents or certain industries. Instead, they should serve the capital markets of the United States and those of its citizens who invest in securities directly or indirectly, through pension funds, mutual funds, and other financial intermediaries.”

*Gabrielle U. Napolitano, CFA, Chair, Financial
Accounting Policy Committee, and Georgene B. Palacky,*

*CPA, Associate, Advocacy, Association for Investment
Management and Research, 2/23/00*

“The Council applauds the FASB’s deliberative process for considering this significant change. The many hearings and long period for comments has given all interested parties an opportunity to voice their opinions on the issue. The FASB’s role as an independent agency is critical, and its ability to make the tough policy decisions without legislative interference is essential.”

*Sarah A. B. Teslik, Executive Director, Council of
Institutional Investors, 2/28/00*

“There is more at stake here, however, than the outcome of this particular proposal. Once again, those who object to a FASB proposal are asking members of Congress to intervene and get the proposal overturned. We are concerned that, if narrow interest groups are able to turn to Congress for relief every time they disagree with a FASB decision, the survival of FASB as an independent standard-setting body will be seriously threatened.”

*Barbara Roper, Director of Investor Protection, Consumer
Federation of America, 2/24/00*

“Pooling and purchase accounting each have advantages and disadvantages. The primary issue here is which one provides shareholders with the most accurate picture of the combined company’s value. This is precisely the kind of issue that FASB is uniquely able to resolve, and your careful process and independent, comprehensive review have produced the right result. We must not let that result be subject to political partisanship.”

Nell Minow, Editor, The Corporate Library, 2/29/00

“. . . [I]n order to maintain the integrity of our financial markets, we believe it is critically important to maintain the setting of accounting standards in the United States in the private sector. In our view, intervention of the federal government in the setting of standards would seriously undermine the independence and neutrality of the Financial Accounting Standards Board.

. . . .

The development of accounting standards is best done impartially and neutrally based on a consistent framework, rather than one subject to the sway of political influence that could change from year to year. Further, government involvement in the setting of standards would unnecessarily delay the issuance of new standards that are needed to appropriately report events currently impacting businesses. Such delays would not be in the best interests of financial statement users. Finally, Congress should be guided by experience in the United States (the regulatory forbearance extended to savings and loans in the 1980s) and elsewhere in the world (the Asian crisis a few years ago) that

demonstrates that government intervention in accounting and financial reporting can be harmful to the capital markets.”

Ernst & Young LLP, 2/21/00

“We strongly encourage Congress and the SEC to refrain from intervention in the private standard setting process. We fully support the independence of FASB and the integrity of the private sector standards setting process and oppose legislation of accounting standards.”

KPMG LLP, 2/24/00

“We strongly support the independence of the FASB and the process it uses in developing accounting standards.

. . . .

It isn’t by accident that U.S. financial reporting is the envy of the world. This is true because the standards that have been produced in the private sector have resulted in financial statements that are reliable, relevant, impartial, and comparable among industries and companies. It is important to the future of financial reporting that this process remains independent and objective and free from the influence of politics.”

PricewaterhouseCoopers LLP, 2/23/00

“While we welcome the ongoing healthy debate about the merits of various proposals making their way through the standard setting process, we believe that the process must remain neutral, impartial and free from undue political pressure.

. . . [W]e hope that legislation does not ensue that would remove accounting standard setting from the private sector or otherwise inject government intervention in the standard setting process. . . .

In sum, we continue to be committed to the existing private sector standard setting process.”

Arthur Andersen LLP, 2/23/00

“The accounting profession believes financial reporting standards—which are at the bedrock of the nation’s economy because of the reliable and uniform financial information they provide for efficient capital market systems—can best be set by a professional, independent private sector standard-setting body rather than by the government.

. . . .

The AICPA believes that accounting standards should be set by the private sector and is unalterably opposed to having them set by the government. Even though the SEC has the statutory authority to set accounting standards, the SEC agrees with the accounting profession that accounting standards are best set in the private sector.”

*J. Thomas Higginbotham – Vice President, Congressional
and Political Affairs, American Institute of Certified Public
Accountants*

“We write to express our views regarding efforts by some industry groups to undermine the current system where accounting standards are set in the private-sector. We believe these efforts have the potential to threaten the vitality of America’s capital markets.

. . . .

We urge the Congress to endorse the current system of independent, open, private-sector standard setting by qualified individuals as one of the institutional arrangements that has contributed greatly to the preeminence of U.S. capital markets and serves as a cornerstone of our financial reporting system.”

*Joseph H. Godwin, Ph.D., CPA, Chair, Department of
Accounting and Taxation, Grand Valley State University,
1998-99 Academic Fellow, and 14 Other Former Academic
Fellows in the Office of the Chief Accountant of the
Securities and Exchange Commission, 10/15/99*

“Accounting is a glorious profession, but only as long as it maintains the goals of communicating economic truth to investors and creditors, and relies on the principles of decision usefulness, transparency, and attesting to the truth. To try to manipulate the numbers to help the high tech and investment banking industries will eventually come to hurt both the industry and the equity markets.

. . . .

. . . I think there is potential harm from federal involvement. This potential for dysfunctional intervention arises because federal officials might try to engineer economic results rather than improve financial reporting, to contrive economic consequences instead of seeking and communicating economic truth.”

*J. Edward Ketz, Associate Professor of Accounting, The
Pennsylvania State University, Department of Accounting,
The Mary Jean and Frank P. Smeal College of Business
Administration, 3/2/00*

“As current and past presidents of the AAA, we express to you our strong opinion that standard setting should remain in the private sector. We believe that the current relationship between the Securities and Exchange Commission and the FASB is in the

public interest of investors, creditors, and others who rely on high quality financial information. The U.S. capital markets are the strongest in the world. This is due, in large measure, to the quality of information that supports the exchange of securities in these markets. The independence and lack of politicization that characterize our standard-setting process have resulted in great confidence by the investing community. We are, in fact, envied throughout the world with regard to both the process and outcome of our standard-setting. This has become increasingly evident as interest in developing global accounting standards has intensified.”

*Jan R. Williams, American Accounting Association
President, University of Tennessee, and on Behalf of 9
Former AAA Presidents, 2/29/00*

“High quality accounting standards must have their roots in strong conceptual foundations that can endure changing conditions. Shifting legislative agendas, which can undermine their effectiveness and credibility, as evidenced in many countries around the world, should not influence such standards. Led by the independent Financial Accounting Standards Board (FASB), the private-sector system in the U.S. is responsible for developing financial accounting and reporting standards that are widely recognized as the best in the world. Those standards contribute, in large measure, to the efficient functioning of our capital markets and the strength of our economy.

. . . [W]e continue to be committed to a standard setting process independent from government.

The current structure . . . provides for the opportunity to participate for all of financial reporting’s various constituencies with differing views, and for participants to feel free to voice their opinions without fear of undue consequences. We believe government involvement in this process, however, could jeopardize the vigorous exchange of ideas in the search for solutions we enjoy today under the private-sector system.”

*Philip B. Livingston, President and CEO, Financial
Executives Institute, 9/8/99*

“As in other instances where significant proposed change is under deliberation, selective constituents seek a rush to legislative participation without allowing the private standard setting process to move through it’s due process and develop final recommendations. I urge against such interference in a process that is recognized as the premier process in the world in setting financial accounting standards.

. . . .

The FASB seeks to set neutral standards that provide a complete and faithful picture for **investors**, and is able to make decisions without bending to changing political forces. Legislative interference in this process always carries with it the threat of lost independence and objectivity and, thus, it’s viability.”

R. C. Oelkers, President, Texaco International Trader Inc,

“ . . . I understand that hearings are going to be held about the FASB’s proposed rules for business combinations. While I disagree in an important way with the FASB’s position, I think it would be a terrible mistake to have accounting standards be set – or even influenced – by Congress.

. . . I hope that the FASB modifies its position in certain respects, but I also hope that it can make its evaluation absent any political pressures.”

*Warren E. Buffett, Chairman, Berkshire Hathaway Inc.,
2/16/00*

“The current private sector accounting standard setting process of the Financial Accounting Standards Board (“FASB”), together with the public sector Securities and Exchange Commission, effectively promote uniformity of accounting measurement principles and full disclosure of relevant financial information. . . . This process is complete with effective and adequate public oversight; accordingly, increased legislative activity is neither required nor desirable.

We strongly support the current FASB process. Their efforts have contributed to creating the best and most effective financial accounting and reporting standards in the world.”

*Robert T. Blakely, Executive Vice President & Chief
Financial Officer, Lyondell Chemical Company, 3/13/00*

“As Chairman of the Senate Banking Committee, I whole-heartedly support the continued independence of FASB and would be very much opposed to government intervention in the process of setting accounting standards.”

The Honorable Phil Gramm, United States Senate, 3/15/00